LOGISTICS SERVICES

Industry Sector Analysis [ISA] **ID: 71801**

Regions: **ANESA; Africa; Southern Africa; AFDB**
Country: **South Africa**

Industries

Automotive & Ground Transportation	Services	Marine Industries	Food Processing & Packaging
Aerospace & Defense			

Sectors

Transportation Services (Other Than Aviation)	Regulations	Trade Promotion Services	Port/Shipbuilding Equipment
Packaging Equipment (Other Than Food)	Aviation Services		

by: **Johan Van Rensburg**
approver: **N/A**

Report Date: **04/02/2003**
Expires: **N/A**

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Summary

The South African logistics, freight forwarding, and shipping sector has approximately 180 customs cleara freight forwarders registered with the South African Revenue Services / Directorate Customs and Excise. these are small operators, but the large international groups are also represented in South Africa.

The logistics management activity (customs clearance, freight forwarding and the shipping sector) has seen in internal operations in the recent past. Whereas in the past, there were fewer, but larger shipments coming South Africa, buyers have changed their procurement patterns in order to face up to the declining value of Rand, and also to implement more competitive warehousing practices. These factors have led to smaller, le costly, consignments in order to reduce the cash flow squeeze on buyers, and also to reduce the import of g with a potentially short technological shelf life. The effect of this is a significant increase in the volume of for inbound logistic service providers which is not indicated by largely constant value-defined import data. exports side the traditional pattern of logistics' servicing (larger, fewer consignments) has been maintained. consist for a large part of bulk and breakbulk freight, but manufactured and perishable goods are increasing making inroads in the pattern of exports from South Africa.

Growth prospects in the logistics sector are upbeat with observers believing that certain niches are likely to
from increased exports such as in the automotive, textiles, and perishable sectors. Outbound logistics' servi
Cape Town which account for a large number of textiles and perishables are expected to double during the
of 2001 in the wake of the Africa-wide exports prospects of the Africa Growth and Opportunity Act (AGO
medium term prospects for increased exports to the US from South and southern Africa to the US due to A
are considerable; these are business opportunities which logistic service providers with appropriate add-on
in the US can well benefit from. The recently introduced mandatory US Department of Commerce / Burea
Export Administration regulations regarding export documentation have also made alliances with US impo
agent partners imperative for South African shipping agents.

A. Market Overview

Logistics service providers in South Africa act as both customs clearance agents and freight forwarders, un
their counterparts in many other countries. The reason for this is that the service provider can better cover h
front customs clearance risks by adding other revenue generating, and lower risk services (see Market Acc

The logistics' service sector in South African should be seen against the backdrop of the importance of Sou
Africa in regional and sub-Saharan African trade.

Africa is becoming an increasingly important export destination for South Africa with some 14% of total e
destined for the continent. This excludes South Africa's trade with the Southern African Customs Union (S
countries of Botswana, Swaziland, Lesotho and Namibia; if trade with these four countries, recently estima
about R15 billion, were included, this would make Africa the second largest destination for South African
after the European Union. Only three percent of South Africa's total imports originate from the African co
giving an overall export-import ratio of 5:1. While there is an acceptance that South Africa's imports from
are never going to equal exports due to the nature of South Africa's import needs and the limited range of p
available in Africa, the potential in this trade is still not realized.

Since the lifting of sanction in 1992, South Africa's exports to Africa have grown by 276%, imports by 26
total trade by 273%. Aside from the negative growth experienced in 1998, which was largely due to large d
in trade with key trading partners such as Zimbabwe, Mozambique and Zambia, double-digit increases hav
recorded throughout the last decade.

Another significant factor about South Africa's trade with Africa is that in no other region in the world is t
profile of trade so heavily weighted in terms of beneficiated and manufactured goods. Trade in beneficiate
with Africa has contributed to structural changes in South Africa's economy. In 1990 only 5% of South Af
exports were manufactured goods. This figure had increased to 25% by 1997, largely on the back of Africa
where 25% of South Africa's total manufactured goods exports are destined. Future economic growth in S
Africa has to come in part from an increase in manufactured goods exports and Africa will have to provide
the markets for these goods.

During 1998, 72% of South Africa's trade with Africa fell into the following categories:

- machinery and equipment (19%),
- base metals and metal articles (11%),

- chemicals (13%),
- transport vehicles and equipment (9%),
- prepared foods (9%),
- plastics (6%)
- and pulp and paper (5%).

The significance is highlighted if one compares this to South Africa's exports to the European Union where
exports to the EU in 1998 were in the categories of:

- mineral products (18%),
- base metals (16%),
- precious and semi-precious stones and metals (13%),
- machinery (9%)
- transport equipment (8%), and
- vegetable products (7%).

A further feature of South Africa's trade with Africa is that the bulk of trade is focussed within the Souther
African Development Community (SADC) region. Annually about 78% of total exports and 74% of South
total trade with Africa is with SADC states. There are a number of reasons for this, not least of which is tha
Southern Africa is a logical trading region for South Africa – the markets are close, a number are accessibl
road or rail transport and, for the most part, business can be conducted in the English language. The establi
of the SADC Free Trade Area on September 1, 2000, will go a long way to further improving the trading
environment and the volumes of trade within the region. It is only fair to expect South Africa's role in regio
trade to increase.

About 85% of South Africa's exports to Africa are to 10 countries. Zimbabwe, Mozambique and Zambia a
Africa's three largest trading partners. The remaining seven countries are Malawi, Angola, Kenya, Mauritiu
Tanzania, the Democratic Republic of the Congo (DRC) and Ghana. The order of importance of these mark
changes from year to year as internal conditions in these countries' affects their ability to import. Interestin
despite the internal problems in the DRC, it has remained in South Africa's top ten export markets for the p
years. The same applies to Angola. These two markets provide a valuable lesson for exporters and that is d
civil war and deteriorating economies, buyers are still to be found, and a logistic service is to be provided.

As is the case with exports, South Africa's imports from Africa are focused on a few countries with the top
countries accounting for between 80 and 90% of total imports. Zimbabwe is again South Africa's top mark
Africa followed by Malawi, Nigeria and Egypt. Zambia, Mozambique, the Cote d'Ivoire, Togo, Kenya and
Madagascar are the remaining countries making up the top 10. In positions 9 and 10 the order changes regu
with Mauritius and Angola also featuring from time to time.

Between 1995 and 1999 exports of sub-Saharan African countries increased at an average annual rate of 4%
value and 5,1% in volume, while imports rose 6,3% per year in value and 6,9% in volume. These trade stat
were also reflected in a rise in total containerized liner cargo transported to and from the region. This led to
increase in traffic at an average annual rate of 2,1% (imports at 0,8% and exports at 3,6%), from two millio
twenty-foot equivalent units (TEUs) in 1998 to nearly 2,1 million TEUs in 1999. Approximately half of the
containers are loaded or discharged on the continent's southern hemisphere coastlines.

Two thirds of the volume through the southern coast is traded by South Africa. The trade of the west coast for the other third of the total. Coal, iron ore and grain are the major dry bulk cargoes of sub-Saharan Afric exports from the southern coast, handled entirely by South Africa, reached 54,8 million tons in 1999.

Iron ore shipments are made from the west and southern coasts, with combined exports of 36,4 million tons imports amounted to nearly seven million tons, of which more than half came in through the west coast. Ex crude oil represented 157,8 million tons, the majority of which was produced in the west coast (two thirds o total) and southern coast (one third).

African exporters and importers are hampered by high costs and a lack of capacity. The total tonnage owne region (excluding Liberia, which is an open-registry country; South Africa; and African island countries) h dropped from about two million dwt (0,29% of the world total) in 1980 to 1,2 million dwt (0.15% of the wo total) in 1999. Fleets consist mainly of conventional general cargo vessels and tankers, accounting for 29,1 46,4% respectively of the total tonnage registered in the sub-Saharan countries. No container ships are regi the region.

Market Trends

Increased competition between established service providers, and the high costs of appropriate IT solutions in the future lead to some rationalization in the industry. However, an expected upturn in the trade figures o Africa as well as an increase in freight rates bode well for the immediate future. Nonetheless, present freigh are below the rate that they were 15 years ago, and according to experts this is not sustainable in the long te

A normally volatile trade balance between South Africa and its trading partners has led to imbalances in th and demand of containers, a situations which calls for appropriate logistic management capacity. The logis management industry in South Africa has benefited from the economic fact that economic growth in South has a time lag behind that of its major trading partners: while imports in value terms have been sluggish, ex most ore and minerals have been growing in recent years. This has enabled service providers to balance ou vagaries of business. However, both the container movement imbalance as well as the volatility of trade vo with South Africa is expected to remain for the future. This places an added premium on those providers w able to face up to this challenge.

South African logistics' experts believe that the future of the freight industry lies in a smaller, multi-skilled workforce operating on a system with a strong central database and connectivity to the service providers on business-to-business basis within the supply chain. This means that service providers will have to have a cl management system in place with which the interface can take place in real time. An example of this is fina software, which will enable clients to download accounts and costings directly through the web, will be a n requirement for efficient interaction.

All commercial harbors within the Republic of South Africa are controlled by Portnet, a division of Transn Limited, which provides all harbor services, except stevedoring, at the main ports.
Portnet does not provide free port zones in any of its harbors.
There are 8 main ports as follows:

1. **Durban:** The port of Durban is a full service general cargo port handling about 20% of South Africa

port traffic. It is the busiest port in Southern Africa, handling about 5 000 commercial vessels annually, bri
26 million tons of cargo worth SA Rand 50 billion and representing 65% of the total revenue earned by the African ports. Durban's Container Terminal handles more than 880 000 TEU moves annually. Durban has unmatched shipping opportunities both in terms of frequency and destinations served. It is especially effect hub port for cargo to and from the Far East. The port is an important conduit for a number of important commodities including coal, chemicals, steel, citrus products, sugar, grain, minerals, ores, granite, rice, for products and petro-chemicals. Durban's geographical position makes it the principal port for goods destine land-locked and economically overriding Gauteng region. The port has 57 berths that are serviced by 21 te The coal, paper, sugar, citrus, grain, liquid bulk, dry bulk, and granite terminals are privately operated, whi passenger, container, Ro-Ro, breakbulk, and timber terminals are run by Portnet.

2. **Cape Town:** The Port of Cape Town is a full service general cargo port. It is renowned for its decidu fruit, perishable and frozen product exports. The fishing industry based at the port of Cape Town is also a r client. The Port of Cape Town is strategically placed on the world's sea routes and it is ideally situated to se hub for cargoes between Europe and the Americas, Africa, Asia and Oceania. Although it is the furthest po the Gauteng region, the port is still used by Gauteng-based importers of high value/time sensitive cargoes f Europe and the Americas. The Port of Cape Town is fully equipped to handle all types of general breakbul containerized cargo.

3. **Port Elizabeth:** Port Elizabeth has facilities for the handling of all commodities presented. A major terminal caters for fruit exports and the next biggest commodity is manganese ore. A feature of Port Elizab that it not only serves as an entry for the motor car industry in the Eastern Cape but also as an exit for fully vehicles to the Far East.

4. **East London:** East London is the only commercial river port on the South African coastline. The po the largest grain silo on the South African coast and grain, primarily maize, is the most important single pr exported through the port.

5. **Richards Bay:** Richards Bay, situated on the north coast of Kwa-Zulu Natal, is South Africa's main the handling of bulk cargo. It is a deep-water port and handles about 50% of South Africa's total port traffi terms of volume (14.6% of value). The port is well known for its facilities for the handling of bulk commo such as coal, woodchips and other "beltable" as well as neo-bulk commodities such as granite blocks, steel Bulk liquids such as chemicals are handled by pipeline.

6. **Saldanha Bay:** Saldanha is a deep-water port and is the largest natural port in southern Africa. The p unique in that it is serviced by a purpose-built railroad, a bulk handling facility which is connected to a ded jetty for the shipment of, in particular, iron ore. Other cargoes handled by the port include lead, copper and concentrates, salt and frozen fish.

7. **Mossel Bay:** Mossel Bay has always been a fishing port with limited commercial cargo activity. Mo recently it has served the oil industry.

8. **Johannesburg:** Johannesburg at the hub of South Africa's economic heartland, is an inland port with customs clearance facilities.

Wide ranging changes are in the offing regarding compliance and control of South African exports and imp The South African Revenue Service (SARS) / Customs and Excise intends tightening the current export an import policy and procedure. The authorities are also expected to be more vigilant in enforcing compliance

A case in point has been the Cape Town customs office, which during 1999 greatly improved quality of wo Fewer consignments for examination purposes have been stopped, however the success rate in detecting irregularities, ranging from under-valuation of goods to under-payment and smuggling - increased by up to

The benefit for the importer lies in reduced costs due to fewer consignments being checked and an improve flow. At the same time the pressure on customs' clearance agents to meet clients reasonable expectations is increasing.

Custom clearance agents in the US can expect added demand for their services as far as US - SA trade is co since South African importers of goods from the United States can no longer have these items dispatched t on documentation prepared by forwarders based in South Africa. Instead, either the importer, or an agent a in the US with full power of attorney must be on hand in the US to sign the necessary documents ex-works

The US Department of Commerce, working in co-operation with the US Census Bureau, has introduced ne export regulations, which require all foreign buyers to operate in this manner. The regulations came into ef October 10 2000. The changes affect what US legislation terms "routed export transactions". In South Afri are known as "ex-works" purchases. The regulations were promulgated on July 10 2000, but a three-month of grace was given to all parties concerned before compliance became compulsory.

Many South Africans have historically bought from US suppliers on ex-works terms. They appointed the forwarders, who collected goods from the supplier, shipped them and invoiced the buyer with all charges. been especially true of airfreight.

The problem has arisen that under US law the owner of the goods must complete a Shipper's Export Decla the ex-works contract the owner at the time of export is not able to complete this because he or she is base South Africa and is there at the time of export from the US.

Forwarders are no longer allowed to show themselves as exporters. The regulations now insist that the ow sign export documents in the US, or appoint a person who is in the US at the time of export, who must hol accepted power of attorney and who must then be on the spot to sign the documents. The US Bureau of Ex Administration has stated that it is concerned about the manner in which agents have completed document the past, and that the objective of the new regulations is also to provide more accurate statistics. Letters of are requested on the importer's letterhead paper, and the appointed agent, when presenting documents, will required to present this letter and the official power of attorney.

B. Competition

South Africa's biggest trading bloc is the European Union and established European freight forwarders ben from this trade pattern. However, this competition has traditionally focussed on trade to Europe. With AG generally expected to be an increasingly important factor in sub-Saharan trade to the US, South African ex figures are equally expected to show a shift to the NAFTA region. When comparing the pattern of South A exports to NAFTA in 1999 to that toward the European Union (EU), there is clearly scope for considerable improvement, although until critical mass is reached, there may be a tendency to maintain the traditional s route of South Africa - Europe - North America.

South Africa's Foreign Trade by Region, 1999 (in SAR millions)

Rank	Region	Total	Exports	Imports

		Trade		
1	EU	122 252	58 574	63 677
2	APEC	107 218	49 911	57 306
3	NAFTA	41 021	19 122	21 898
4	SADC (Southern African Development Community) - Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe	21 240	18 278	2 961
5	EFTA	9 459	5 357	4 102
6	MERCOSUR	4 404	1 704	2 699
7	rest of the world	60 006	40 938	19 023

Source: ABSA Economic Research
http://www.absa.co.za/ABSA/Site_Templates/Publications_and_References/Publications_Link_Frameset/?
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The implications for AGOA as far as logistic service providers are concerned should not be under-estimate
service providers are well positioned to benefit from AGOA because of their established value chain to and
the US.

Sales Prospects

One industry observer has pointed out that at present, no computerized clearing software product can offer
integrated B2B solution together with an operational package. This is clearly an opportunity for the approp
software application.

Various industry watchers expect AGOA to contribute significantly to exports by South African manufactu
automotive components and vehicles duty-free into the United States. Japanese companies, which faced im
duties of between one and six per cent in the US, could reportedly start investing in South Africa to take ad
of the duty-free status. NAAMSA (National Association of Automotive Manufacturers of SA) expects mot
vehicle exports from South Africa - currently running at about 70 000 units a year - to double in 2002. Con
exports are also expected to grow. An example is the Ford motor plant in Port Elizabeth, which is already
producing an engine a minute for the export market. The 1999 production of 55 000 units a year is expecte
grow to 180 000 units by 2002.

The commitment by the United Nations (UN) to source supplies "from Africa for Africa" offers business
opportunities to SA, according to Tish Schutte, international trade manager for the Johannesburg Metropol

Chamber of Commerce and Industry (JMCCI).
UNICEF (UN International Children's Emergency Fund) is currently spending about R1.4-million a year in this sum is expected to be increased to about R10-million by 2004.
UNICEF's major needs included vaccines, pharmaceuticals, general medical supplies and equipment. Other products and services needed are for transport, IT (information technology), education, supplementary feed programs, printing services, computer equipment, blankets, tents and emergency kits. Another possible sou African trade is UNOPS (UN Office for Project Services), an operation which serves clients both inside and outside the UN system. Over the past three years UNOPS has sourced products from South Africa to the va US$ 4.5-m. Besides needing project management specialists, UNOPS is looking for fabricated iron and ste products, motor vehicles and spare parts, tyres, pharmaceuticals, plastics in primary form, chemicals, fertili agricultural machinery, food, construction and mining equipment and paper. "They also need services in tra engineering, technical consultancy, information technology and post-conflict rehabilitation." Logistic servi providers who are up to speed on dealing with NGO's as well as having expertise in servicing under-resour areas are clearly able to benefit and add value to this type of operation.

Opportunities also emanate from increasing trade between South African and the US is in the field of wine the US. In 2000, South Africa only exported 2,5 million liters to the US. The CEO of the South African Wi Spirit Exporters' Association (SAWSEA), believes this could rise to annual sales of at least nine million lit 2005.

An important aspect of the South African logistics management landscape is the fact that some elements, if are set to be privatized. The South African Government is expected to award concessions for the operating possibly to the two main contenders in the selection process: AP Moller and P&O Nedlloyd. The initial pro denationalization of the South African shipping and freight forwarding industry came to a head when SAFMARINE / SAFREN, the now de-listed blue chip South African shipping company was taken over by / AP Moller in 1998. Other state controlled agencies set to be privatized include Fast Forward, the rail-depe express parcel service of Spoornet.

Risk management plays a major role in successful warehousing operations and is increasingly forming part supply chain management. The importance of adequate supervision of packing and unpacking of goods and inspection of these at both ends of the chain must never be underestimated. A major undertaking for client currently to sublet a client's warehouse. This may involve a situation where the warehouse owner might lea a trader and the service provider then subleases from the trader, but the main objective is to have full contro operation no matter who is responsible for the goods. Consignments are taken in, secured and insured wher necessary by the service provider and only released when the principal or financier gives an instruction, and quantity and condition are checked before the consignment is countersigned by the recipient. Collateral management service is in reality a risk management solution which has been slow to take off in South Afric that has attracted considerable interest elsewhere in Africa, particularly in those countries where operating is lacking. The service is planned to assist financial institutions to develop their commodity trade finance operations in emerging markets by securing pledged cargo as collateral in safe locations under strict contro service the service provider receives goods into the warehouse, tallys and determines the quantity both in a checks the stacking, issues warehouse receipts, receives and checks releases from the bank and authorizes d from the warehouse.

C. Market Access

Custom clearance agents in South Africa have one operational hurdle, which also acts as a deterrent for nev entrants. Customs clearance agents disburse on behalf of their clients the duty and VAT (Value Added Tax payable on imports to Customs and Excise / South African Receiver of Revenue. This is recouped later upo presentation of invoice, but with a financing cost involved, payable by the client, as well as the pure comm risk. New market entrants who wish to access the broad-based mainstream customs clearance sector have t therefore be fully aware of market conditions as well as current industry mechanisms to reduce this exposu obvious manner to overcome this obstacle is to buy into an existing operation, as happened in 1998 when A Express International of the US took over Pro-Freight (Pty) Ltd. Danzas has subsequently bought into AEI Danzas AEI (SA) (Pty) Ltd.

SA Government (SAG) preferred procurement practices encourage BEE (Black Economic Empowerment) and it is imperative for new market entrants seeking access to SAG and parastatal contracts to be allied to partners.

In December 2000 US based CSX World Terminals entered into a 50/50 Joint Venture (JV) with Dudula S a local BEE marine service company. This move gives CSX World Terminals a foothold in privatized loca terminals. This step is part of a more strategic move of CSX World terminals to become a concessionaire w parastatal PORTNET for the operation of container terminals in Durban and Cape Town. With the JV, CSX Terminals has gained access to salvaging, vessel management and offshore tanker terminal operation, as w offshore support in and around South Africa. CSX Worldwide Terminals is one of the world's largest conta terminal operators and traces its origins back to the US's largest and oldest container shipping line, Sea-La Service.

Another example of a foreign company, Kuehne & Nagel, entering into South Africa by means of a BEE jo venture is KN Tsepisa Logistics (Pty) Ltd. (www.kuehne-nagel.com)